MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

December 13-14, 2001

Chapter 1: How Medicare pays for services: an overview

ISSUE: How does Medicare pay for thousands of services furnished to beneficiaries by over one million providers in hundreds of markets throughout the nation? What are the prominent policy issues?

KEY POINTS: Commissioners, Congressional staff, and others have requested that MedPAC produce an overview of how Medicare pays for the myriad services beneficiaries use. This tab provides a draft of Chapter 1 for the March 2002 report—a primer that describes how Medicare currently pays for products and services in fifteen major settings. The goal, size and scope of the program make Medicare payment extremely complex. Recent legislation—the Balanced Budget Act of 1997 (BBA), the Balanced Budget Refinement Act of 1999 (BBRA), and the Medicare, Medicaid, and SCHIP Beneficiary Improvement and Protection Act of 2000 (BIPA)—changed how Medicare pays for most of the services beneficiaries use. Therefore, a primer on Medicare payment is timely and useful to policymakers and others.

Medicare's payment systems should support the program's goal of ensuring beneficiaries' access to high quality care in the most appropriate clinical setting, without imposing unwarranted financial burdens on beneficiaries or taxpayers. To achieve this goal, each payment system must set payment rates that cover efficient providers' costs. Doing this requires similar design elements across payment systems, although they are often configured somewhat differently to recognize differences in the nature of the products and services Medicare is buying and related differences in how providers' use of inputs affects production costs. The chapter briefly discusses six common elements for all payment systems:

- the unit of payment and classification system that define the products Medicare is buying,
- the base payment rate
- relative values or case-mix weights for product categories
- adjustments for input price levels in local markets
- other adjustments
- policies for updating payment rates over time.

For each major setting, we give an overview of the type of care furnished, the broad outlines of the payment method, and key payment policy issues. This is followed by a more detailed description of the products Medicare is buying, how payment rates are set, and current policy issues (without solutions).

The chapter draft is organized into seven main sections:

- an introduction to the common elements of payment systems (to be written);
- payment for acute inpatient care in short-term hospitals and specialty psychiatric facilities;
- payment for ambulatory care furnished by physicians, hospital outpatient departments, ambulatory surgical centers, and clinical laboratories;
- payment for post-acute care provided by skilled nursing facilities, home health agencies, inpatient rehabilitation facilities, and long-term care hospitals;
- payment for services furnished by outpatient dialysis facilities and hospices;
- payment for ambulance providers and durable medical equipment suppliers; and
- payment for Medicare+Choice plans.

ACTION: Commissioners should discuss whether we have captured the major issues for each payment system. Of course, any other comments also would be welcome.

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